

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 L-03 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 /056 W

----- 040337

R 030440Z OCT 76

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 5004

INFO AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

C O N F I D E N T I A L ABU DHABI 2645

E.O. 11652: GDS

TAGS: BENC, BDIS, TC

SUBJ: INTERCONTINENTAL MAY GET ANOTHER CHANCE IN ABU DHABI

REF: ABU DHABI 2584

SUMMARY: INTERCONTINENTAL (IHC) HAS GIVEN GOVERNMENT (ADG) THIRTY DAYS NOTICE TO RECTIFY BREACH IN CURRENT CONTRACT OR ELSE MATTER TO BE TAKEN TO ARBITRATION. DESPITE THIS TOUGH LINE, ADG REACTION HAS BEEN AT LEAST TO GIVE MATTER CAREFUL SECOND LOOK. WE BELIEVE THERE IS NOW DISPOSITION ON ADG'S PART TO FIND SOLUTION TO PROBLEM THAT WILL KEEP IHC HERE. BUT LATTER AT MINIMUM WILL HAVE TO BE PREPARED SIT DOWN AND DISCUSS ISSUES THOROUGHLY AND PROBABLY MAKE SOME CONCESSIONS. EMBASSY HAS RESPONDED POSITIVELY TO REQUEST THAT IT CONSIDER LENDING SUPPORT TO EFFORT TO BRIDGE GAP. WE WOULD HOWEVER APPRECIATE DEPT OF COMMERCE CONTACTING IHC BOTH TO ADVISE THEM RE DEVELOPMENTS AS WELL AS TO GET FEEL OF IHC POSITION AND ATTITUDE AT THIS TIME. END SUMMARY.

1. DURING CALL SEPT 29 ON DR. HASSAN ABBAS ZAKI,  
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DIRECTOR ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT

AND ECONOMIC ADVISOR TO SHAIKH ZAYED, HE INFORMED ME THAT IHC MATTER HAD JUST BEEN DUMPED IN HIS LAP. HE WAS IN PROCESS OF ORGANIZING THOROUGH EXAMINATION OF EXISTING CONTRACTS AND DEVELOPMENTS TO DATE WITH VIEW TO DECIDING WHAT IS APPROPRIATE COURSE FOR ADG TO FOLLOW. THIS BEING DONE UNDER PRESSURE OF FORMAL IHC NOTICE THAT IT CONSIDERS CONTRACT TO HAVE BEEN BREACHED AND GIVING REQUIRED THIRTY DAY NOTICE THAT IF THESE MATTERS NOT RECTIFIED ARBITRATION WILL BE PURSUED.

2. DR. ZAKI STATED THAT HE KNEW I HAD DISCUSSED THIS MATTER WITH SHAIKH SUROOR AND THAT HE WELCOMED CHANCE TO REVIEW ISSUE WITH ME. HE FRANKLY NOTED THAT PROJECT HAD BEEN SCALED BACK ON DIRECT ORDERS FROM SHAIKH ZAYED WITH SUROOR HAVING BEEN GIVEN RESPONSIBILITY. ZAKI OBSERVED THAT THIS ANOTHER CASE OF ONE OR ANOTHER MEMBERS OF ROYAL FAMILY GETTING RULER'S EAR AND PUTTING KNIFE IN SOMEONE ELSE'S PROJECT. NEVERTHELESS, DR. ZAKI INDICATED THAT HE HAS CONSIDERABLE SYMPATHY WITH VIEW THAT ADG HAD ENTERED INTO CONTRACT AND HAD TO BE PREPARED TO ACCEPT ATTENDANT RESPONSIBILITIES. DR. ZAKI WAS ALSO AWARE THAT NAMES OF ADDITIONAL CONTRACTORS HAD BEEN PUT FORWARD AND COULD APPRECIATE CONCERNS THIS HAD CAUSED. FINALLY HE AGREED WITH OUR VIEW THAT SEEING THIS WHOLE MATTER AIRE IN ARBITRATION DISPUTE WAS NOT IN ANYONE'S INTERESTS. IN SHORT, WHILE HE UNDERSTANDABLY WISHES TO AWAIT RESULTS OF STUDY OF PROJECT BY HIS EXPERTS, HIS INCLINATION AT THIS TIME APPEARS TO BE TO TRY TO WORK THINGS OUT RATHER THAN ACCEPT BREACH. IN THIS CONNECTION HE ASKED ME IF EMBASSY-- THAT IS IF I--WOULD BE PREPARED TO TRY TO ASSIST IN BRINGING PARTIES TOGETHER. I RESPONDED THAT WE WOULD BE MORE THAN WILLING TO HELP. I NOTED THAT IHC, OF COURSE, WOULD MAKE ITS OWN DECISIONS, BUT THAT FROM EMBASSY STANDPOINT WE BOTH (A) DID NOT WANT TO SEE IHC OR 3D-8 LOSE BUSINESS AND (B) DID NOT WISH TO SEE MAJOR DISPUTE BETWEEN ANY U.S. FIRM AND ADG WHICH COULD DAMAGE CLIMATE FOR AMERICAN BUSINESS HERE. I REVIEWED FOR ZAKI MANY OF IHC'S CONCERNS RE SITUATION AS WELL AS THEIR REASONS FOR REQUIRING CONTRACT IN ITS PRESENT FORM. WE BOTH AGREED

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THAT THERE WAS UNFORTUNATELY ELEMENT OF DISTRUST AND SUSPICION ON BOTH SIDES WHICH WOULD HAVE AT MINIMUM TO BE FINESSED IF SOLUTION TO BE FOUND. MEETING CONCLUDED WITH DR. ZAKI INDICATING HE WOULD PROBABLY BE BACK IN TOUCH ONCE PROJECT STUDY HAD BEEN COMPLETED.

3. I SUBSEQUENTLY INVITED 3D-I REP, WELDON LEE, TO COME IN AND REVIEW STATE OF PLAY ONLY TO FIND THAT HE

WAS ALREADY AWARE OF AT LEAST PART OF WHAT HAD HAPPENED. HE HAD IN FACT FOLLOWED UP ON OUR LAST MEETING (PARA 6 REFTEL) AND HAD SEEN SUROOR SEPT 23. PURPOSE HAD BEEN MIXED ONE, FIRST TO DELIVER IHC 30 DAY ULTIMATUM AND SECOND TO SEEK TO AT LEAST CLARIFY 3D-I'S POSITION AS WELL AS MAKE FURTHER STAB ON PROJECT AS WHOLE. LEE APPARENTLY FOUND SUROOR CONSIDERABLY LESS NEGATIVE EVEN RE CONTINUED IHC PARTICIPATION THAN HE HAD BEEN WITH ME DAY BEFORE. LEE OPINED THAT PERHAPS ADG STARTING TO REALIZE THAT IT WAS NOT GOING TO BE THAT EASY JUST TO TURN PROJECT OVER TO OTHERS. IN ANY CASE, SUROOR TOLD LEE THADD MATTER HAD BEEN GIVEN TO DR. ZAKI FOR STUDY, BUTH LEFT IMPLICATION THAT THIS WOULD BE FOR PURPOSE OF BEING PREPARED TO RESPOND IF IHC MADE FURTHER PROPOSALS--THAT INITIATIVE WOULD NOT COME FROM ADG. I TOLD LEE THAT I THOUGHT ZAKI, AT MOMENT AT LEAST, WAS PREPARED TO GO FURTHER--TO SEEK DISCUSSIONS WITH IHC. BUT I DID BELIEVE THAT THERE WAS GOING TO HAVE TO BE SOME GIVE AND TAKE--THOROUGH AIRING OF ISSUES, HOPEFULLY AVOIDING CLASH ON ANY ONE POINT THAT WOULD PREVENT FULL EXAMINATION OF PROBLEM. SUCH FULL EXAMINATION SHOULD SERVE CLARIFY NUMBER OF POINTS AND HOPEFULLY ERASE SOME OF MIS-TRUST. PERHAPS IRRECONCILABLE DIFFERENCES WOULD REMAIN WITH QUESTION OF IHC FEES BEING MOST LIKELY ONE. (DR. ZAKI MENTIONED THAT THEY SEEMED SOMEWHAT HIGH AND LEE STATED THAT IT HIS PERSONAL VIEW THAT THIS, NOT REDIRECTION OF INDIVIDUAL CONTRACTS, WHICH WAS MOST SENSITIVE POINT FOR IHC.) BUT IT WAS AT LEAST WORTH TRY.

4. ACTION REQUESTED: LEE HAS ALREADY SENT WORD BACK TO HIS HEADQUARTERS (AND FROM THERE WE ASSUME TO IHC) RE ABOVE DEVELOPMENTS, BUT HE IS NOT PREPARED TO PREDICT REACTION. AND CLEARLY, AS WE SAID TO ZAKI, THESE ARE DECISIONS FOR IHC TO MAKE. NEVERTHELESS  
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WE BELIEVE IT WORTHWHILE FOR DEPT OR COMMERCE TO CONTACT IHC (PRESUMABLY HAROUN) TO CONVEY OUR CURRENT ESTIMATE THAT ADG HAS NOT CLOSED DOOR ON PROJECT AND APPEARS LIKELY TO BE PREPARED TO TALK FURTHER. AND EVEN TO TAKE INITIATIVE TO THAT END. ON OTHER HAND, WE WOULD NOT PREDICT TOTAL CAVE IN ADG POSITION. AT MINIMUM THERE WILL HAVE TO BE SOME FACE SAVING AND BEYOND THAT WE THINK REAL CONCERNS ABOUT ADG CONTROL OVER PROJECT MAY FORCE SOME REAL CHANGES, AT LEAST IN PROCEDURES. IF IHC WANTS EMBASSY'S HELP WE OF COURSE PREPARED TO DO WHAT WE APPROPRIATELY CAN. IN THIS EVENT, HOWEVER, WE WILL NEED TO BE KEPT INFORMED OF DEVELOPMENTS--NOT BE LEFT IN DARK UNTIL THINGS GET TOUGH. FINALLY, IF IHC HAS REALLY SOURED ON ABU DHABI AND IS NOT READY TO EXPLORE ISSUES FURTHER, THEN WE

WOULD LIKE TO KNOW THAT AS SOON AS POSSIBLE. WE CAN  
OF COURSE, KEEP INFORMATION TO OURSELVES IF DESIRED  
BUT WE CLEARLY DO NOT WANT TO BE IN POSITION OF  
ENCOURAGING DR. ZAKI AND OTHERS TO BELIEVE THERE IS  
WILLINGNESS TO RE-NEGOTIATE IF THAT IN FACT IS NOT  
THE CASE.  
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